

1.2 Types of business entities

- **Business**

- **Private**

- Individual business

- Main purpose->Make profit

- **Public**

- Government business

- Main purpose->Provide essential goods and services

- **Profit-based organizations**

- **Features**

- **Profit**=total revenue-total costs

- **Goals**

- Make profit

- Reward the owners with profits from the business

- Return some of the profits back into the business for capital growth

- **Profit**

- Return to owners

- Reinvest into business

- **Types**

- **Sole trader/partnership**

- Unlimited liability

- Same legal identity

- Unincorporated business

- **Limited companies**

- Limited liability

- Separate legal identity

- Incorporate business

- **Unincorporated business**

- **Sole trader**

- Business owned and operated by one person

- No legal distinction exists between the business and the owner

- The owner has unlimited liability for the liabilities of the business

- The business ceased to exist when the owners dies

- **Advantages**

- **Disadvantages**

- **Partnership**

- Partnerships are owned by two or more persons (known as partners)

- At least one partner must have unlimited liability

- Start-up finance is raised mostly by personal funds which are pooled together by the partners

A legal document known as a deed of partnership is drawn up to formalize agreements such as how profits and losses are to be shared between partners

- Advantages
- Disadvantages

- Incorporated business

- Share holders
- Limited liability companies

- Introduction

- These are businesses owned by their shareholders.
 - Shareholders have invested money to provide capital for a company
 - Companies are incorporated businesses

- In the eyes of the law, the companies are treated as a legal entities separate from its owners
This means they have limited liability

- There are two types of companies - private held and publicly held companies

- Advantages

- Disadvantages

- Owners

- Privately held companies

- A privately held company's shares are owned by friends and/or family
These shares cannot be traded publicly on the stock exchange
Shareholders can only sell their shares if they have prior permission from other shareholders
Typically, privately held companies are also family businesses

- Publicly held companies

- A publicly held company can sell shares on the stock exchange
Shares are held by the general public
No prior permission by other shareholders is required for a shareholder to sell their shares

- For-profit social enterprises

- Introduction

- These are revenue generating enterprises with social objectives at the core of their operations

- Aim

- Make a surplus (i.e. earn revenue greater than costs incurred)
Use the surplus for the benefit of society
 $\text{Surplus} = \text{total revenue} - \text{total costs}$

- Private sector for-profit social enterprises

- These enterprises operate in a similar way to traditional for-profit businesses
They aim to make a surplus instead of relying on donations to achieve social aims
These firms produce goods and/or services and compete with similar businesses
They often use the triple bottom line as an accounting framework for ethical business practices

- **Public sector for-profit social enterprises**

These enterprises are state-owned to operate in a commercial way

They help to raise government revenues to provide essential services to society that may be inefficient and undesirable if left solely to the private sector

- **Cooperatives**

- Advantages

- Disadvantages

- **Non-profit social enterprises**

- **Non-governmental organizations(NGOS)**

An NGO operates in the private sector

They provide goods and/or services normally expected from the public sector

However, these goods/services may be underprovided by governments

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